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STATE OF MICHIGAN
OFFICE OF FINANCIAL AND INSURANCE REGULATION
DEPARTMENT OF ENERGY, LABOR & ECONOMIC GROWTH
STANLEY "SKIP" PRUSS, DIRECTOR

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COMMISSIONER

BILL ANALYSIS

BILL NUMBER: House Bill 5634, as introduced

TOPIC: Prohibits the use of employment, trade, business, occupation, profession, education, or credit score in auto insurance rates

SPONSOR: Representative Woodrow Stanley

CO-SPONSORS: Representatives Lesia Liss, Harold Haugh, Vincent Gregory, Dian Slavens, Kate Segal, Jon Switalski, Douglas Geiss, Mike Huckleberry, Rashida Tlaib, Robert Jones, Fred Durhal, George Cushingberry, Jimmy Womack, LaMar Lemmons, Coleman Young, David Nathan, Lisa Brown, Sarah Roberts, Lee Gonzales, Gabe Leland, Ellen Cogen Lipton

COMMITTEE: House Committee on Insurance

Analysis Done: December 2, 2009

POSITION

The Office of Financial and Insurance Regulation (OFIR) supports this legislation.

PROBLEM/BACKGROUND

The Michigan Essential Insurance Act (EIA) was enacted in 1979 to ensure that consumers have access to automobile and homeowners insurance and that rates are competitive and fair. The EIA established the factors that insurers may use to develop rates and to ensure that insurers only underwrite based on a prescribed list of enumerated factors.

The proposed legislation would bar insurers from using a person's level of education, occupation, or insurance credit score for determining auto insurance premiums. Using surrogate rating characteristics such as these to establish a person's insurance premium is controversial because there is no intuitive connection between these individual characteristics and the likelihood that the policyholder will incur a loss.

DESCRIPTION OF BILL

The proposed legislation would add Section 2027A to the Insurance Code to establish that it is an unfair method of competition and an unfair or deceptive act or practice for an auto insurer to use a person's credit history for eligibility or rating purposes for individual or group auto insurance

policies. The legislation would also restrict the use of a person's employment, trade, business, occupation, profession, or education level for eligibility or rating purposes for individual auto insurance policies.

SUMMARY OF ARGUMENTS

Pro

Michigan law specifically excludes certain factors from being used for insurance rating purposes because they are inappropriate based on societal standards, such as a person's gender or marital status, regardless of whether insurance companies can show a data correlation to increased risk for these particular factors. As a matter of public policy, a person's education level, occupation or credit score should not count for or against them in insurance underwriting. Consumers with less education, a blue-collar job, or a lower credit score are being unfairly penalized by paying higher insurance premiums, even if they are safe drivers. The proposed legislation would make it clear that these particular characteristics are no longer appropriate for individual auto insurance policies, regardless of any actuarial correlation to heightened risk of loss that can be shown by an insurance company.

Many insurance companies use outside credit reporting agencies to obtain and calculate individual credit scores. As a result, many of the insurance companies and their agents do not understand and cannot explain how the scores are calculated or even if they are accurate. The consumer cannot easily verify the accuracy of the underlying credit report either. Inaccuracy can make its use arbitrary, if not an unfair method of rating a policy. The proposed legislation would prohibit the use of credit score in determining eligibility and/or setting auto insurance rates for both individual and group policies.

Con

The proposed legislation will force insurance companies to develop new rating methodologies and refile their rates and rating structure with OFIR if they currently use one or more of the proposed restrictions.

FISCAL/ECONOMIC IMPACT

OFIR has identified the following revenue or budgetary implications in this bill:

(a) To the Office of Financial and Insurance Regulation:

Budgetary: None known.

Revenue:

Comments:

(b) To the Department of Energy, Labor & Economic Growth: None known.

Budgetary:

Revenue:

Comments:

(c) To the State of Michigan: None known.

Budgetary:

Revenue:

Comments:

(d) To Local Governments within this State: None known.

Comments:

OTHER STATE DEPARTMENTS

None known.

ANY OTHER PERTINENT INFORMATION

This proposed legislation is similar to legislation that was introduced in a previous legislative session.

ADMINISTRATIVE RULES IMPACT

The proposed legislation would amend the Michigan Insurance Code. OFIR has general rulemaking authority under the Insurance Code, 1956 PA 218.



Ken Ross
Commissioner



Date

